



OFFICE OF THE COMPTROLLER  
CITY OF ST. LOUIS



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November 16, 2012

Mr. Samuel Dotson  
Director of Operations, Mayor's Office  
1200 Market Street  
City Hall, Room 200  
St. Louis, Missouri 63103-2877

**FILE COPY**

RE: Saint Louis City Municipal Courts (Project #2012-44)

Dear Mr. Dotson:

Enclosed is the Internal Audit Section's report of Saint Louis City Municipal Courts Special Request - Revenue and Expenditure Review for the period July 1, 2010 through June 30, 2012. A description of the scope of our work is included in the report.

Fieldwork was completed on August 27, 2012. Management's responses to the observations and recommendations noted in the report were received on November 14, 2012 and have been incorporated in the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, as requested by the Director of Operations, Mayor's Office, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 657-3490.

Respectfully,

Dr. Kenneth M. Stone, CPA, CGMA  
Internal Audit Executive

Enclosure:

cc: Honorable Gordon Schweitzer, Administrative Judge  
Catherine Ruggeri-Rea, City Court Administrator



# CITY OF ST. LOUIS

**SAINT LOUIS CITY MUNICIPAL COURTS**

**SPECIAL REQUEST – REVENUE AND EXPENDITURE REVIEW**

**JULY 1, 2010 THROUGH JUNE 30, 2012**

**PROJECT #2012-44**

**DATE ISSUED: NOVEMBER 16, 2012**

**Prepared by:  
The Internal Audit Section**



## OFFICE OF THE COMPTROLLER

**HONORABLE DARLENE GREEN, COMPTROLLER**

**CITY OF ST. LOUIS**  
**SAINT LOUIS CITY MUNICIPAL COURTS**  
**SPECIAL REQUEST - REVENUE AND EXPENDITURE REVIEW**  
**JULY 1, 2010 THROUGH JUNE 30, 2012**

**EXECUTIVE SUMMARY**

**Purpose**

The Internal Audit Section (IAS) has completed a special request - revenue and expenditure review of the Saint Louis City Municipal Courts (City Courts). The purpose was to determine if the City Courts internal controls effectively and efficiently managed risks to ensure the:

- Accomplishment of established objectives and goals.
- Compliance with applicable laws, regulations, policies and procedures, including bidding.
- Proper safeguarding of assets.
- Reliability of financial and operational information.
- Economic and efficient use of resources.
- Proper authorization, budgeting and recording of expenditures.
- Receipt of all goods and services; for which payment was made.

**Scope and Methodology**

The review included revenues and expenditures from July 1, 2010 through June 30, 2012. The review was confined to evaluating internal controls over the fiscal activities relating to the objectives noted above. The review procedures included:

- Inquiries of management and staff.
- Observations of relevant processes.
- Reviews for compliance with policies and procedures, as well as applicable laws and regulations.
- Limited tests of controls.
- Follow-ups on prior audit observations.
- Other procedures considered necessary.

**Background**

The City Courts' mission is to expediently deal with all City Ordinance violations, bring restitution to victims, and refer defendants to treatment and assistance programs. City Courts functions also include Community Court, Alcohol/Drug Court, Earnings Tax Court, Truancy Court, and Problem Property Court.

The Director of Operations, Mayor's Office, in a letter dated March 15, 2012 requested a comprehensive review of revenues and expenditures of the City Courts. Concerns were expressed over the processes used to reconcile the accounts.

### **Exit Conference**


An exit conference was conducted at City Courts on October 29, 2012. City Courts was represented by the Administrative Judge, City Court Administrator, Administrative Assistant and Cashier Supervisor. The Internal Audit Section was represented by the Internal Audit Executive, Audit Supervisor, Auditor II and Auditor I.

### **Conclusion**

The opportunity exists for the management of City Courts to improve internal controls over compliance with State Statutes, purchasing policies and procedures and integrity of financial operations. The following are observations resulting from our review:

1. Opportunity for City Courts to comply with State Statutes (Bank Set-up).
2. Opportunity to comply with City purchasing policies and procedures.
3. Opportunity to comply with Comptroller's Office Contract Administration policies and procedures.
4. Opportunity to recognize revenue and transfer funds to the City's general fund on a timely basis.
5. Opportunity to improve the integrity of financial operations.
6. Opportunity to develop written policies and procedures.

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

  
Dr. Kenneth M. Stone, CPA, CGMA  
Internal Audit Executive

  
Date

**CITY OF ST. LOUIS  
SAINT LOUIS CITY MUNICIPAL COURTS  
SPECIAL REQUEST - REVENUE AND EXPENDITURE REVIEW  
JULY 1, 2010 THROUGH JUNE 30, 2012**

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## OBSERVATIONS

### Status of Prior Observations

There have not been any recent revenue and expenditure reviews performed on City Courts within the past five years.

### Summary of Current Observations

Several control procedures were noted as strengths in processing revenues and expenditures. These included, but were not limited to the following:

- Properly segregated duties.
- Proper safeguarding of assets.

The opportunity exists for management to improve internal controls over the City Courts fiscal activities. The following are observations resulting from our review:

1. Opportunity for City Courts to comply with State Statutes (Bank Set-up).
2. Opportunity to comply with City purchasing policies and procedures.
3. Opportunity to comply with Comptroller's Office Contract Administration policies and procedures.
4. Opportunity to recognize revenue and transfer funds to the City's general fund on a timely basis.
5. Opportunity to improve the integrity of financial operations.
6. Opportunity to develop written policies and procedures.

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

**DETAILED OBSERVATIONS, RECOMMENDATIONS  
AND MANAGEMENT'S RESPONSES**

**1. Opportunity For City Courts To Comply With State Statues (Bank Set-Up)**

The City Courts has five bank accounts: Marshall & Ilsley Corporation (M&I) now known as BMO Harris (bond payments, lockbox payments, and electronic check payments); Pulaski Bank (internet payments) and UMB Bank N.A. (credit card payments). Three bank accounts were not set up by the City Treasurer's Office, in compliance with Missouri State Statute RSMo 95.530. The three accounts set up by City Courts are with M&I bank.

State Statute RSMo 95.530 states, "In all cities not within a county, the Mayor, the Comptroller and the Treasurer shall constitute the funds committee, and the Treasurer, by virtue of his office, shall serve as chairman of such committee. The committee shall annually select a bank or banks, or trust company or trust companies, or credit union or credit unions, savings and loan or savings and loans, which has its principal place of business in Missouri referred to hereafter as "listed institutions", for the current deposit of the city's fund, which in their opinion will be most commensurate with the safety thereof."

Opening of new bank accounts was initiated by City Courts but not registered with the Treasurer's Office.

City Courts is in violation of State Statute RSMo 95.530. Not using the Treasurer's Office to set-up bank accounts may result in unfavorable service charges or lost revenue. Excessive bank service fees of \$60,763 (July 1, 2010 through June 30, 2012) were accumulated.

<u>Bank</u>	<u>Total Bank Charges</u>	<u>Account</u>
M&I Bank	\$ 54,824	Lockbox
M&I Bank	3,574	electronic check
UMB Bank, N.A	2,365	credit card
Total	<u>\$ 60,763</u>	

**Recommendation:**

IAS recommends that City Courts ensures that all bank accounts maintained at various banks are reported to, and registered with the Treasurer's Office. In addition, City Courts and the Treasurer's Office should work with Banks to eliminate bank service fees.

## 1. Continued...

### ***Management's Responses:***

*The three bank accounts with BMO Harris were set up with full knowledge and guidance of the Treasurer's Office. The titling of the accounts from City Courts to that of St. Louis City Treasurer was initiated in the last phases of the audit in cooperation with the Treasurer's Office.*

*City Court will work with the Treasurer's Office to bring the three (3) accounts into compliance by December 31, 2012. The filling of the Accounting Supervisor position will address this issue in the future.*

## 2. Opportunity To Comply With City Purchasing Policies And Procedures

City Courts had contracts issued for services that did not go through the City's purchasing system. Contracts were issued for services such as money pickup, security cameras, and installation of security cameras. A random sample of 212 vouchers was selected for review. City Courts was not in compliance with 49 out of 212 vouchers reviewed.

The City of St. Louis Purchasing Policies and Procedures require contracts for \$5,000 or more to be submitted for approval to the Supply Division for sealed bids by advertising in the City Journal for 21 calendar days. For amounts of \$500 to \$4,999.99, the Supply Division must request sealed bids – no advertising is required.

The management stated that they did not know about the \$500 to \$4,999 and \$5,000 or more contract submittal requirement. They stated that no one had informed them of the policy for years.

Contracts issued by the City Courts:

- Did not have the proper vetting.
- May have missed an opportunity to obtain better terms and/or services.

### **Recommendation:**

IAS recommends that all future contracts and purchases be submitted through the Supply Division for approval.



2. Continued...

***Management's Responses:***

*City Court is currently following this recommendation and will continue to work with the Supply Division in its purchases and contracts. The person filling the Accounting Supervisor position will address this issue in the future with the Supply Commissioner.*

*City Court currently has a City of St. Louis Purchasing Manual on site.*

3. **Opportunity To Comply With Comptroller's Office Contract Administration Policies and Procedures**

The City Courts did not comply with the Comptroller's Office contract administration policy. The City Courts did not have contracts for professional services. Nine professional services were paid out of the City Courts account number 5659000 for a total of \$22,210.

<u>Type of Service</u>	<u>Amount</u>	<u>Number of Vouchers</u>
Moving Judicial Books	\$ 2,700	7
Moving Judicial Books	2,700	7
Developing Policy & Procedure Manuals	4,200	7
Filing Dockets	2,645	6
Filing Dockets	1,800	4
Filing Dockets	1,800	4
Financial Services	2,250	5
Moving Judicial Books	1,440	3
Replacing Security Cameras	2,675	6
	<u>\$ 22,210</u>	<u>49</u>

The Comptroller's Office contract administration policy states, "Each department entering into a contract/agreement over \$500 dollars must adhere to the following: Each individual contract/agreement must be accompanied by a Contract/Agreement Batch Transmittal Ticket (requisitioned by your department from Multigraph or downloaded from this web site) containing Department Number, Batch Number (assigned by your department), Vendor Name, Contract Amount, and Contract Type. This information will be used by your messenger to log in the contract/agreement in the Comptroller's Office, Room 311. Each contract/agreement (no exceptions) must also be accompanied by a cover letter addressed to the Comptroller and printed on your letterhead including the following information:"

### 3. Continued...

- Description and duration of the contract.
- Maximum amount of the contract.
- Tax and license clearance (for service contracts only, clearances must be dated no more than 30 working days prior to execution, pursuant to Ordinance 65708).
- Bonding Required – Verified by name, all verification copies must be attached.

“Finally, there must be one original and at least three (3) copies of the contract provided to the Comptroller’s Office. If any item is omitted or not addressed, the contract will be rejected.”

Management stated that they were unaware of the requirement to have contracts/agreements reviewed and approved by the Comptroller's Office.

Non-compliance with the Comptroller’s Office Contract Administration policies and procedures may lead to:

- Loss of revenue.
- Lack of competitive bidding.
- Increased liability for the City of St. Louis.

#### **Recommendation:**

IAS recommends that all future contracts of \$500 or more be submitted to the Comptroller's Office for review and approval.

#### ***Management’s Responses:***

*City Court is currently following this recommendation and will continue to work with the Comptroller’s Office in it’s having contracts of \$500 or more, reviewed and approved.*

*The person filling the Accounting Supervisor position will address this issue in the future with the Comptroller’s Office.*

#### 4. Opportunity To Recognize Revenue And Transfer Funds To The City's General Fund On A Timely Basis

Review of the City Courts revenue accounts in the City's general ledger, by month, showed significant changes and unusual spikes in the monthly revenue amounts for fiscal year 2012.

- The average monthly revenue for fiscal year 2012 was \$165,789 below the monthly average for fiscal year 2011 (\$625,582 - \$459,793). In January 2011, the City Courts posted revenue of \$2,052,948, significantly above the normal monthly average.

Month	Revenue			
	Fiscal Year	Fiscal Year	Variance	
	2011	2012	Increase/(Decrease)	
			\$	%
July	\$ 680,361.02	\$ 674,583.52	\$ (5,777.50)	(0.8)%
August	628,512.73	611,228.54	(17,284.19)	(2.8)%
September	710,422.34	356,336.53	(354,085.81)	(49.8)%
October	610,628.78	286,097.67	(324,531.11)	(53.1)%
November	624,038.13	196,702.21	(427,335.92)	(68.5)%
December	549,147.33	191,386.46	(357,760.87)	(65.1)%
January	621,371.46	2,052,948.30	1,431,576.84	230.4 %
February	616,639.29	399,089.69	(217,549.60)	(35.3)%
March	816,378.92	607,788.91	(208,590.01)	(25.6)%
April	696,175.39	(10,569.27) ***	(706,744.66)	(101.5)%
May	408,025.43	32,700.46	(375,324.97)	(92.0)%
June	545,285.52	119,222.58	(426,062.94)	(78.1)%
Total	\$7,506,986.34	\$5,517,515.60	\$(1,989,470.74)	(26.5)%
Monthly Average	\$625,582.20	\$459,792.97	\$(165,789.23)	(26.5)%

\*\*\* - April 2012, City Courts had negative revenue of (\$10,569). The negative revenue is the result of posting expenditure payments of \$277,944, partially offset by revenue postings totaling \$267,375. The expenditure payments were for red light camera service fees.

- The transfer of funds from the City Courts bank accounts to the City General fund was not performed on a monthly basis. The average monthly ending bank balance for fiscal year 2012 was \$1,633,641 higher than the monthly average for fiscal year 2011 (\$1,843,491 - \$209,850).

4. Continued ...

Month End Bank Balance			
<u>Month</u>	<u>Fiscal Year 2011</u>	<u>Fiscal Year 2012</u>	<u>Variance</u>
July	\$ 147,557.94	\$ 557,110.86	\$ 409,552.92
August	162,090.92	600,134.49	438,043.57
September	145,302.63	1,054,429.83	909,127.20
October	135,451.13	1,614,328.23	1,478,877.10
November	150,307.50	2,099,299.92	1,948,992.42
December	113,447.84	2,696,397.70	2,582,949.86
January	140,756.98	1,046,348.98	905,592.00
February	103,567.52	1,488,900.13	1,385,332.61
March	184,321.88	1,872,593.16	1,688,271.28
April	157,963.88	2,442,705.50	2,284,741.62
May	470,451.00	3,057,622.96	2,587,171.96
June	606,986.23	3,592,022.16	2,985,035.93
Monthly Average	\$209,850.45	\$1,843,491.16	\$1,633,640.71

- There was a total of \$3,592,022 as of June 30, 2012 in the bank accounts from payments received through credit card, electronic check, internet, and lock box. The balance of \$3,592,022 is revenue receipts that were not recorded in the City's general ledger as of June 30, 2012.

<u>Bank Account</u>	<u>Bank Balance as of 06/30/12</u>	<u>Payment method</u>
M&I Bank	\$ 617,767.72	Electronic Check
M&I Bank	1,787,781.51	Lockbox
Pulaski Bank	1,140,628.61	Internet
UMB Bank N.A.	45,844.32	Credit Card
Total	<u>\$ 3,592,022.16</u>	

Good management practices provide for the timely recognition of revenue, transfer of funds to the City bank account and a follow-up on unusual changes in monthly financial results.

Management has not assigned the responsibility for the monthly recognition of revenue and transfer of funds to the City's general fund. The City Courts did not notify the Treasurer's Office that funds needed to be transferred to the City's general fund. City Courts, Comptroller's Office and Treasurer's Office management did not follow-up on significant changes in the historical trends of revenue and cash collections.

#### 4. Continued ...

Lack of timely reconciliation of financial records and transfer of funds could result in:

- Unreliable financial statements, understatement of revenue.
- Significant loss of funds.
- Unauthorized transfer or use of funds.

#### **Recommendation:**

IAS recommends that City Courts:

- Assign the responsibility for the recognition of revenue on a timely (weekly/monthly) basis.
- Transfer funds to the City general fund on a timely (weekly/monthly) basis.
- Management review, sign and date the monthly financial results and bank reconciliation ending bank balances.

#### ***Management's Responses:***

*Reconciliation of accounts has been resolved and is current through this audit period. All monies due the City General Fund have been rendered.*

*City Court is currently working to reinstitute the lead finance position, an Accounting Supervisor, to the Table of Organization. City Court has also invested in a new finance program, through REJIS, which will enhance all aspects of bookkeeping and accounting functions making it less-labor intensive and less prone to human error.*

*Currently this task is being done by the Administrative Assistant III until the Accounting Supervisor position is filled..*

#### 5. Opportunity To Improve The Integrity Of Financial Operations

The bank accounts for bond, credit card, electronic check, lock box and internet payments, REJIS records and posting to the City's general ledger have not been reconciled on a monthly basis. The last bank statement reconciliation was for December 2011.

5. Continued ...

- The December 2011 bank statements' reconciliations reviewed were incomplete. The bank reconciliations did not agree with the City Courts ending balance by \$3,716,739 (\$4,220,637 - \$503,898). The bank reconciliations did not show date prepared, signature of preparer, date and signature of management who reviewed the bank reconciliation.

**December 2011 - Bank Reconciliation**

<u>Bank Account</u>	<u>Adjusted Bank Balance</u>	<u>Adjusted City Courts Balance</u>	<u>Variance</u>
M&I (Bond)	\$ 1,540,741.96	\$ (91,969.50)	\$ 1,632,711.46
M&I (Electronic Check)	337,761.47	78,482.47	259,279.00
M&I (Lockbox)	1,770,042.00	340,202.82	1,429,839.18
Pulaski Bank	472,534.57	138,820.45	333,714.12
UMB Bank	99,556.74	38,361.98	61,194.76
Total	\$ 4,220,636.74	\$ 503,898.22	\$ 3,716,738.52

**December 2011 - Bond Activity Report Reconciliation**

	<u>Deposit</u>	<u>Checks Issued</u>
Bond Activity Report	\$ 58,260.00	\$ 74,640.00
Bank	58,260.00	77,151.50
Variance	\$ 0.00	\$ (2,511.50)

- A sample of 30 out of 436 daily deposits was tested. This represents 6.9% of the total daily deposits. The receipt deposits were traced to the bank and 2 credit card payment deposits that were incorrectly deposited into the bond bank account totaling \$4,541.
- Review of the bond bank account showed there were 176 direct deposits for credit card payments totaling \$300,793 incorrectly deposited into the bond account, during the time period of February 1, 2012 through June 30, 2012. The \$300,793 is revenue receipts and should not have been deposited in the bond escrow account.
- In review of the bond bank account statement, there were 16 charges for a total of \$4,502. The bond bank account is an escrow account and should not be used to pay for any fees or services.

5. Continued ...

<u>Charges</u>	<u>Amount</u>	<u>Number</u>	<u>Description of Charge</u>
Safeguard	\$ 630.26	4	Checks
Ladco Leasing	563.22	6	Credit Card Processing
Bankcard	3,308.70	6	Credit Card Processing
Total	<u>\$ 4,502.18</u>	<u>16</u>	

Good management practice provides for the monthly reconciliation of bank statements to the general ledger and REJIS to the general ledger in a timely manner to ensure accurate and reliable financial information.

Management has not assigned the responsibility for the monthly reconciliation of financial records.

Lack of timely reconciliation of financial records could result in:

- Untimely detection of errors.
- Significant loss of funds.
- Unauthorized transfer or use of funds.

**Recommendation:**

IAS recommends that City Courts:

- Assign the responsibility for the reconciliation of bank statements, and REJIS to the City general ledger on a monthly basis.
- Management review, sign and date the reconciliations of the bank statements, and REJIS to the City general ledger on a monthly basis.

**Management's Responses:**

*City Court agrees and is adding a finance position in the table of organization for assignment of monthly reconciliation of bank statements and the general ledger to REJIS.*

*Currently this task is being done by the Account Clerk I and overseen by the Administrative Assistant III, until the Accounting Supervisor position is filled.*

*City Court has worked with the Comptroller's Office to correct the clerical errors.*

## 5. Continued ...

*There are no monies missing during this audit period. City Court has returned to the task of monthly reconciliation and can ensure a return to providing accurate and reliable financial information.*

## 6. Opportunity To Develop Written Policies And Procedures

The City Courts did not have written policies and procedures for all of its processes. Policy and procedure manuals should give detailed step by step instructions on how the employees are to perform their tasks. Written policies and procedures on how to process revenue payments and procedures for purchases did not exist for:

- Bank lockbox payments reconciliation and review.
- Bond payments recording receipt, reconciliation of escrow balance and review of reconciliation.
- Bond forfeiture notice of final judgment and disposition of bond.
- Red mail box payment collections, posting and deposit of receipts.
- Account clerk daily deposit to Treasurer's Office and bank pick up signatures and reconciliation.
- Traffic ticket issuance and input of information into REJIS.
- Red light camera issuances and notification process.
- Purchases of supplies and services request, required documentation and authorization.
- Payment of supplies or services purchased required documentation and authorization.
- Disbursement of checks (bond and lock box accounts) documentation, authorization and controls.

City Courts provided a copy of the Daily Cashier Deposit policies and procedures manual, dated April 2011. The Daily Cashier Deposit policies and procedures manual was not approved by management. During the months of March 2011 and April of 2011, the City Courts paid a consultant \$4,200 to develop a policies and procedures manual. The Daily Cashier Deposit policies and procedures manual was the only one submitted, the other policies and procedures manuals were never completed.



## 6. Continued ...

Written policies and procedures assist in ensuring that procedures and job functions are:

- Effectively communicated to and understood by staff.
- Approved by management.
- Consistently performed.
- In accordance with management's goals and objectives.

Management has not assigned the responsibility for the development of written policies and procedures for the processes noted above.

The absence of written policies and procedures increases the risk that:

- Organization's processes may not be performed consistently in compliance with regulations and standards.
- Employees may not be effectively trained.
- Appropriate performance standards may not be developed.

### **Recommendation:**

IAS recommends the following:

- Management should develop written policies and procedures manual to include all the processes noted above.
- Written policies and procedures manual should be approved by management and effectively communicated to the staff.

### ***Management's Responses:***

*City Court agrees and will work to convert its training statements on each position into a policy and procedures manual for the departments. City Court shall also, when staffing and time allow, update its current outdated finance manual with many of the recommendations of the consultant and work with REJIS to obtain their training program, to include in the policy and procedure manuals.*